

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997)

Docket No. R97-1

RESPONSE OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC.
TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE (USPS/NDMS-T1-1-5)
(January 30, 1998)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle FilmWorks, Inc., hereby provide the responses of witness John Haldi to the following interrogatories of the United States Postal Service: USPS/NDMS-T1-1-5, filed on January 16, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

January 30, 1998

USPS/NDMS-T1-1

Please refer to NDMS-T-1. At page 45, lines 4-8, you state that your primary recommendation is to eliminate the nonstandard surcharge.

- (a) Does this recommendation apply to both the 11-cent single-piece surcharge and the 5-cent surcharge for presorted mail? If not, please explain.
- (b) Please quantify the "negligible loss of revenue" (page 45, lines 6-7) that would result from the elimination of the surcharge, and indicate whether the calculation is done using current or proposed rates.
- (c) Under your proposal, how would you propose that the Postal Service recover the lost revenue (calculated in part b)?

Response:

- (a) Yes.
- (b) Base Year total revenue from the surcharge, as shown in my testimony (Table 1, p. 19) is \$35.3 million. Test Year 1998 Before Rates and After Rates volumes and revenues from the nonstandard surcharge are estimated in USPS-T-32, Workpaper 1, p. 5, as shown in the attachment to my response to this interrogatory.

According to Postal Service projections, Test Year Before Rates revenues amount to \$38.7 million, and Test Year After Rates revenues amount to \$59.1 million. For nonstandard single pieces, note that the Postal Service projects a 4.8 percent increase in After Rates volume despite a 45.5 percent increase in the nonstandard surcharge. In a similar vein, Automated Presort Nonstandard After Rates volume is projected to increase by 0.8 percent despite a 120 percent increase in the nonstandard surcharge. Although demand for delivery of nonstandard pieces may be somewhat inelastic, I am, nevertheless more than a little skeptical about these projections.

- (c) I propose reducing the revenue requirement. At the time the Postal Service filed its case, it estimated an operating surplus during FY97 of \$636 million, and it subsequently reported an operating profit of \$1.3 billion for FY97, which represents an extra profit of \$664 million, as well as an additional reduction of the prior years' deficit by the same amount. Since recovery of prior years' losses (RPYL) is spread over 9 years, this represents a reduction in the revenue requirement of approximately \$73.8 million during Test Year, which is more than enough to offset the projected loss in revenue from abolition of the First-Class nonstandard surcharge.

Attachment to response to USPS/NDMS-T1-1.

	Volumes (000)			Rates (cents)			Revenues (\$000)		
	Before	After	Percent Change	Before	After	Percent Change	Before	After	Percent Change
Single Piece	316,738	318,261	4.8%	11.0	16.0	45.5%	34,841	50,992	46.4%
Presorted									
Non-automated	28,667	25,923	-9.6%	5.0	11.0	120%	1,433	2,852	99.0%
Automated	<u>47,358</u>	<u>47,747</u>	0.8%	5.0	11.0	120%	<u>2,368</u>	<u>5,252</u>	121.8%
Total	392,763	391,931					38,642	59,096	

USPS/NDMS-T1-2

On page 9 (line 13) and page 10 (line 1) of NDMS-T-1, you state that "The surcharge was intended to encourage use of standard size mailpieces..."

- (a) If your proposal to eliminate the surcharge were to be adopted, what impact do you think that would have on the number of nonstandard pieces in the mailstream?
- (b) Would you expect mailers to increase their use of nonstandard pieces? Please explain.

Response:

- (a) Very little.
- (b) No. Postal Service data indicate that about 90 percent of the revenue from the First-Class nonstandard surcharge is derived from single pieces, with the other 10 percent from First-Class presort. *I doubt whether many members of the mailing public are even aware of the surcharge. To the extent that they are not aware of it, the surcharge would not have any influence on their mailing practices. Furthermore, the model used by the Postal Service to develop its before and after rates volume projection appears to embody a positive own-price elasticity for nonstandard single pieces (see my response to USPS/NDMS-T1-1). Under this forecasting scenario, higher rates result in higher volume and, symmetrically, a lower rate would result in less usage.*

USPS/NDMS-T1-3

In Table 4 of NDMS-T-1 (page 32), you present a percentage, "coverage of mail processing and delivery costs," for flats and parcels separately.

- (a) Please confirm that the delivery cost used to compute the coverage number for flats is not the delivery cost for flats, but rather is the average delivery cost for letters, flats, and parcels combined.
- (b) Please confirm that the delivery cost used to compute the coverage number for parcels is not the delivery cost for parcels, but rather is the average delivery cost for letters, flats, and parcels combined.

Response:

- (a) and (b) It is the unit delivery cost shown in USPS-29C (revised 10/1/97) as cited in my Appendix Table A-1, as referenced in Table 4.

USPS/NDMS-T1-4

On page 20 (lines 18-19) and page 21 (lines 1-2) of NDMS-T-1, you state that, "Witness Fronk proposes to eliminate this First-Class rate category [heavy piece discount] on grounds that (i) the volume is not sufficient to warrant separate treatment, and (ii) simplification of the rate structure would be preferable."

- (a) Please confirm that witness Fronk's written testimony reads as follows: "There are two related reasons for this proposal [elimination of heavy piece discount]. First, by keeping the additional-ounce rate the same since 1991 and progressively increasing the difference with the first-ounce rate, the Postal Service has already reduced the relative price for heavy pieces, making a special discount less necessary. Second, elimination of this discount simplifies the rate structure."
- (b) Please confirm that in the portion of his oral testimony that you cite witness Fronk also stated, "There are a number of other reasons that I considered [in] eliminating the discount, as set forth in response to MMA interrogatory USPS-T32-4,..." (Tr. 4/1625, lines 6-8).
- (c) Please confirm that in the portion of witness Fronk's oral testimony that you cite, he does not refer to the volume of heavy pieces.

Response:

- (a) Witness Fronk's testimony speaks for itself. Please note that the excerpt of his testimony accurately quoted in your interrogatory is immediately preceded by the following statement: "This change [elimination of the heavy piece discount] affects a relatively small number of mail pieces. In 1996, about 300 million pieces, or 1 percent of First-Class Mail received this discount." (USPS-T-32, p. 24.)
- (b) Confirmed.

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(c) Confirmed.

USPS/NDMS-T1-5

On pages 11 (lines 13-18) and 12 (line 1) of NDMS-T-1, you indicate that nine of the 10 nonstandard Christmas cards you intentionally shortpaid showed evidence of machine processing. In discussing the mailing practices of NDMS, you state that, "Envelopes sent to NDMS that contain a cartridge of film and weight less than one ounce constitute a significant portion (perhaps as much as one-fourth) of the 24.9 million nonstandard single-piece First-Class parcels that weighed less than one ounce in 1996" (page 14, lines 20-21 through page 15, lines 1-2).

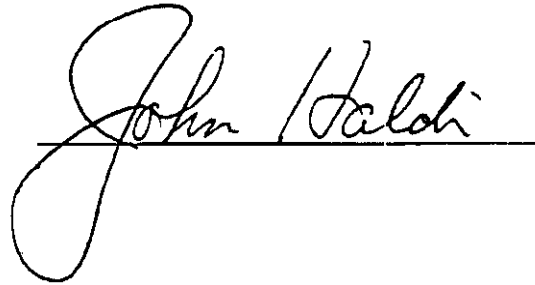
- (a) Please describe the "evidence of machine processing" to which you refer.
- (b) Is it your contention that the nonstandard pieces received by NDMS can be processed successfully using automated equipment? Please explain.

Response:

- (a) Nine of the 10 nonstandard Christmas cards appeared to be machine canceled on a facer-canceler. They also had barcodes applied by the Postal Service, either by an OCR-equipped barcode sorter or by remote encoding equipment. Some of the cards also evidenced a slight tearing along the top edge, and I interpret this as being more indicative of machine processing than manual sortation.
- (b) No. This portion of my testimony deals with my Christmas cards experiment.

DECLARATION

I, John Haldi, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, reading "John Haldi", is written over a horizontal line.

Dated: January 30, 1998